

# **Change in the Weekly Benefit Amount**

**September 2006**



**Employment Security Department**  
WASHINGTON STATE

**Contact:** Office of Communication & Legislation, 360-902-9308

**Online:** [www.studies.go2ui.com](http://www.studies.go2ui.com)

# Highlights of Change in the Weekly Benefit Amount Study

September 2006

## Why we did this study

Over the course of the last two legislative sessions, the state Legislature directed the department to conduct a series of six studies to learn more about the unemployment-insurance system and to determine the effects of recent law changes.

This study was specifically mandated by Engrossed House Bill 2255 and will be repeated in October 2007.

The goal is to determine how calculating benefits based on wages in two quarters versus four quarters affects the unemployment trust fund.

---

The complete report is available online at [www.studies.go2ui.com](http://www.studies.go2ui.com).

For more information, contact the Office of Communication & Legislation at 360-902-9308.

## What we found

**Background:** A person must work a minimum number of hours to qualify for unemployment benefits. The amount of benefits is calculated based on how much someone made while working.

Since 2003, the state Legislature has made several changes to the formula used to calculate benefits. Until 2004, weekly benefits were calculated at 4 percent of a person's average wages in the two highest-earning quarters of the base year of the claim. It then changed to the three highest quarters, then to 1 percent of total wages in four quarters. As of April 24, 2005, benefits have been calculated at 3.85 percent of a person's average wages in the two highest quarters.

Different calculations can make a big difference in how much a person will get if he (or she) loses his job. The cumulative change from two-quarter averaging at 4 percent to four-quarter averaging was projected to reduce the benefits of approximately 81 percent of all claimants, some by more than \$150 per week.

People who work in seasonal industries were particularly hard-hit. For example, a construction worker who worked only six months out of the year because of the weather, and earned \$23,000, would get \$442 each week with two-quarter averaging at 3.85 percent. That would drop to \$230 a week with four-quarter averaging. On the other hand, a manufacturing worker who earned the same amount year-round would likely not see a difference.

**Study:** The study team was specifically charged to identify how much more it costs the unemployment trust fund when benefits are calculated at 3.85 percent of average wages earned in the two highest quarters versus being calculated at 1 percent of wages earned over the course of a full year.

**Findings:** In fiscal year 2006, it cost \$66 million more to pay benefits based on two-quarter averaging than it would have with four-quarter averaging. The additional costs represent 10.6 percent of all benefits paid during that period.

Applying that same percentage to estimated benefit payments for fiscal years 2007 and 2008, the study team projects the cost will increase to \$78 million in each of those years.

These increased benefit costs do not increase taxes for fiscal years 2006-2008. Although benefits are paid based on the two highest quarters' worth of wages as of April 24, 2005, employer experience tax rates are based on the amount benefits would be if they were calculated on wages in four quarters. Although the difference is socialized, social taxes are not expected to increase because the flat social tax rate is projected to be the minimum set by law.

# Table of Contents

<b>Introduction .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Findings .....</b>	<b>2</b>
<b>Scope .....</b>	<b>2</b>
<b>Conclusions .....</b>	<b>3</b>
<b>Appendix .....</b>	<b>4</b>
<i>Mandate for this study</i>	
<i>Internet resources</i>	
<i>Study team</i>	

## Introduction

---

A person must work a minimum number of hours and meet other requirements to qualify for unemployment benefits. The amount of benefits is calculated based on how much someone made while working. Since 2003, the state Legislature has made several changes to the formula used to calculate benefits. The goal of this study is to determine how calculating benefits based on wages in two quarters versus four quarters affects the unemployment trust fund.

The study team was charged with identifying the difference in costs for fiscal years 2006-2008 when benefits are calculated using the current benefit formula, which was enacted in 2005, versus the formula in effect prior to that law change.

## Background

---

Since 2003, the state Legislature has made several changes to the formula used to calculate how much an unemployed worker receives in benefits each week, also known as the weekly benefit amount.

Prior to 2004, weekly benefits were calculated at 4 percent of the claimant's average wages in the *two* highest-wage quarters of the base year<sup>1</sup> (also known as two-quarter averaging)<sup>2</sup>.

That calculation changed for claims filed during 2004, when benefits were calculated at 4 percent of the average wages in the *three* highest quarters (a.k.a. three-quarter averaging)<sup>3</sup>.

It changed again for claims filed in 2005 prior to April 24, when benefits were calculated at 1 percent of the total wages in all *four* quarters of the base year (a.k.a. four-quarter averaging)<sup>4</sup>.

The cumulative change from two-quarter averaging at 4 percent to four-quarter averaging was projected to reduce the benefits of approximately 81 percent of all claimants, sometimes by more than \$150 per week. The effects were most dramatic for people who work in seasonal industries. For example, a construction worker who worked only six months out of the year because of the weather, and earned \$23,000, would get \$442 each week with two-quarter averaging at 3.85 percent. That would drop to \$230 a week with four-quarter averaging. On the other hand, a manufacturing worker who earned the same amount year-round would likely not see any difference in benefits.

In 2005, the Legislature passed Engrossed House Bill 2255 (EHB 2255), which again calculated benefits based on two-quarter averaging, but multiplied the average wages by 3.85 percent instead of 4 percent<sup>5</sup>. The new calculation became effective April 24, 2005 and was set to expire after two years. However, in 2006, Engrossed Substitute Senate Bill 6885 removed the expiration date, making the change permanent.

---

<sup>1</sup> Base year: The first four of the last five completed calendar quarters prior to the application for unemployment benefits; wages paid during this period are the basis of computation for the weekly and maximum benefit amounts.

<sup>2</sup> RCW 50.20.120(2)(a)

<sup>3</sup> RCW 50.20.120(2)(b)

<sup>4</sup> RCW 50.20.120(2)(c)(i)

<sup>5</sup> RCW 50.20.120(2)(c)(ii)

In addition to changing the formula for calculating weekly benefits, EHB 2255 also directed Employment Security to study the effects (real and projected) of the new benefit calculation (two-quarter averaging at 3.85 percent) on the unemployment trust fund for fiscal years 2006-2008. This study specifically answers the question: How much more is paid out of the trust fund by calculating the weekly benefit amount at 3.85 percent of the average of the wages for the two highest quarters versus being calculated at 1 percent of the wages for the entire base period? A report is due on October 1, 2006 and again on October 1, 2007.

## Findings

---

Basing benefits on two-quarter averaging costs the unemployment trust fund more than basing benefits on four-quarter averaging. During fiscal year 2006 (FY06)<sup>6</sup>, the impact on the trust fund of calculating weekly benefits at 3.85 percent of the average of the wages for the two highest quarters versus 1 percent of the wages for the entire base period was \$66 million. The projected impact is \$78 million in each fiscal year 2007 (FY07)<sup>7</sup> and 2008 (FY08)<sup>8</sup>.

The actual impact in FY06 was lower than the projected amount for FY07 and FY08 because all benefits paid during FY07 and FY08, but not all benefits paid during FY06, are based on two-quarter averaging. Some benefits paid during FY06 were calculated using three-quarter and four-quarter averaging instead of two-quarter averaging. (Note: See *Scope* for details.)

For FY06 to FY08, the increase in benefits using two-quarter versus four-quarter averaging does not result in additional revenue for the unemployment trust fund. EHB 2255 also prohibits charging the higher costs to taxable employers. Therefore, taxable employers' experience tax rates are not affected, which means employers do not pay any more in experience-rated tax than they would if benefits were paid using four-quarter averaging<sup>9</sup>. Although the difference is socialized, no increase in social tax is expected for FY06 to FY08 because the flat social tax rate is projected to be the minimum set by law.

## Scope

---

Section 7 of EHB 2255 directed Employment Security to report on the impact of sections 2 and 3 of the bill. This study covers the impact of section 3; the impact of section 2 is the topic of the liberal construction study (available online at [www.studies.go2ui.com](http://www.studies.go2ui.com)).

As directed, this study compares and reports on the trust fund impact of Section 3 of EHB 2255, which changed the weekly benefit formula from 1 percent of all base period wages to 3.85 percent of the average of the wages for the two highest quarters. No comparison nor estimate is included in this study of any weekly benefit formula in effect prior to 2005, including two-quarter or three-quarter averaging at 4 percent.

---

<sup>6</sup> Fiscal Year 2006 is July 2005 – June 2006

<sup>7</sup> Fiscal Year 2007 is July 2006 – June 2007

<sup>8</sup> Fiscal Year 2008 is July 2007 – June 2008

<sup>9</sup> RCW 50.29.021(3)(F)

This study considered only claims that started on or after April 24, 2005, because those are the only claims paid during FY06 that used the weekly benefit amount calculation enacted in EHB 2255. Benefits paid during FY06 on claims that started prior to April 24, 2005, were calculated using three-quarter and four-quarter averaging instead of two-quarter averaging.

The difference in benefits paid to employees of reimbursable employers<sup>10</sup> are not included in the findings of this study. Only benefits paid to employees of taxable employers have an effect on the unemployment trust fund. Benefits paid to employees of reimbursable employers do not affect the trust fund.

As required by Section 7 of EHB 2255, this report covers the effects on the trust fund for the three fiscal years 2006 through 2008. Actual data were available only for FY06<sup>11</sup>. To project the effects on the trust fund for FY07 and FY08, the study team first divided the additional benefit costs in FY06 (\$66 million) by the total amount of benefits paid in FY06 (\$624.4 million). The ratio was 10.6 percent, which the study team then applied to the projected benefit payments for FY07 and FY08 (\$737 million each year)<sup>12</sup> to determine the estimated impacts for FY07 and FY08 (\$78 million each year). When this report is due again in October 2007, the study team will have real data available for both FY06 and FY07. Using those data, the department will reassess and determine what ratio to use to project the effect for FY08.

## Conclusions

---

Paying benefits using two-quarter averaging costs the unemployment trust fund more than using four-quarter averaging. The effect on the trust fund of calculating benefits at 3.85 percent of the average of the wages for the two highest quarters versus 1 percent of the wages for the entire base period was \$66 million in FY06. The projected difference is \$78 million in each fiscal year 2007 and 2008.

The difference in benefits has no effect on taxes for fiscal years 2006-2008.

Currently, only one year of actual data is available. More time must elapse before additional data are available to use in more accurately projecting future effects of two-quarter averaging on the unemployment trust fund.

---

<sup>10</sup> Reimbursable employer: A business that pays dollar for dollar on all unemployment benefits paid to former employees. Eligible businesses include government agencies, counties, cities, towns, public schools and non-profit organizations with 501(c)(3) status.

<sup>11</sup> Data Sources: Payments and benefit charges in claimant and employer databases in ESD UI Data Warehouse

<sup>12</sup> Projections modeled by ESD using assumptions approved by Joint Legislative Task Force on UI Benefit Equity in November 2005 and updated in February 2006 with 2005 actual data and then-current forecasts from the Economic and Revenue Forecast Council; adjusted based on comparison of 2006 year-to-date actual data to earlier projections.

## **Appendix**

---

### **Mandate for this study**

Chapter 133 Laws of 2005 § 7 (EHB 2255)

RCW 50.01.020(1):

By October 1, 2006, and October 1, 2007, the employment security department must report to the appropriate committees of the legislature on the impact, or projected impact, of sections 2 and 3, chapter 133, Laws of 2005 on the unemployment trust fund in the three consecutive fiscal years beginning with the year before the report date.

From section 3, chapter 133, Laws of 2005:

(c)(i) With respect to claims with an effective date on or after January 2, 2005, except as provided in (c)(ii) of this subsection, an individual's weekly benefit amount shall be an amount equal to one percent of the total wages paid in the individual's base year.

(ii) With respect to claims with an effective date on or after the first Sunday following the day on which the governor signs this act, and before July 1, 2007, an individual's weekly benefit amount shall be an amount equal to three and eighty-five one-hundredths percent of the average quarterly wages of the individual's total wages during the two quarters of the individual's base year in which such total wages were highest.

### **Internet resources**

Engrossed House Bill 2255 (EHB 2255):

<http://www.leg.wa.gov/pub/billinfo/2005-06/Pdf/Bills/House%20Passed%20Legislature/2255.PL.pdf>

Engrossed Substitute Senate Bill 6885 (ESSB 6885):

<http://www.leg.wa.gov/pub/billinfo/2005-06/Pdf/Bills/Senate%20Passed%20Legislature/6885-S.PL.pdf>

RCW 50.20.120 (weekly benefit amount calculation):

<http://apps.leg.wa.gov/RCW/default.aspx?cite=50.20.120>

RCW 50.29.021 (Benefit Charging)

<http://apps.leg.wa.gov/RCW/default.aspx?cite=50.29.021>

### **Study team**

- Jeff Robinson, ESD – Labor Market and Economic Analysis
- Lois Smith, ESD – UI Research and Analysis
- Darrell Wallace, ESD – UI Research and Analysis
- Ina Schmidt, ESD – Information Technology Services